LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6868 | **DATE PREPARED:** Jan 8, 2002
BILL NUMBER: HB 1272 | **BILL AMENDED:**

SUBJECT: Property Tax Benefits for High Impact Business.

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FUNDS AFFECTED:
GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes a High Impact Business Commission consisting of the Lafayette Common Council and the Tippecanoe County Council. It allows the Commission to designate one business as a high impact business and to exempt the business's inventory from property taxation for ten years. The bill requires a business to commit to investing at least $50,000,000 and retaining at least 1,200 jobs at its facilities located in Tippecanoe County and Lafayette to be designated as a high impact business. The bill also requires a high impact business to continue operations at its facilities in the city and the county for at least 20 years and to comply with a statement of benefits to result from its investment. This bill provides for the termination of the tax exemption, the recapture of tax revenues, and penalties for a failure to comply with the statement of benefits or for ceasing operations at those facilities.

Effective Date: July 1, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State Fair and State Forestry. A $20.5 M reduction in the assessed value base in 2001 would have reduced the property tax revenue for these two funds by about $2,050 annually.

Secondary Impact: Since the bill requires the targeted impact business to commit to a $50 M investment and retention of jobs, income and sale tax revenue will be positively impacted. Income and sales tax revenue is deposited in the General Fund, the Property Tax Replacement Fund, and a few smaller dedicated funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this proposal, a High Impact Business Commission would be formed and would be permitted to exempt one taxpayer’s inventory from property tax for a period of ten years beginning with taxes paid in 2004. The inventory that could be exempted includes inventory from existing operations as well as inventory from any expanded or new operations. The high impact business held inventory with an assessed value of $20.5 M ($61.5 M in 2002 terms) for the 2000 Pay 2001 tax year.

Estimation Issues: The actual fiscal impact would first be experienced in 2004. There are several factors that will affect the amount of impact. ***First***, the new real and personal property assessment rules that take effect with taxes paid in CY 2003 will cause the tax liability on inventory to change. Inventory will no longer receive the 35% valuation reduction adjustment that was in place through the March 1, 2001, assessment date. Also, the higher assessments of real and personal property will result in a property tax rate reduction. Overall, the elimination of the 35% adjustment and the lower tax rates will reduce the property tax on inventory by an estimated 5.7%, statewide. The ***second*** factor is the amount of inventory that the taxpayer will continue to possess from current operations and the amount of inventory held because of any new operations. The high impact business estimates the level of inventory from new operations at roughly the same amount as the current operations level ($60 M), thereby doubling the amount of held inventory. However, the additional inventory, if any, is not currently part of the tax base. As such, the exemption on this property would not reduce the tax base. Instead, the exemption would keep the new valuation from being added to the tax base. The ***third*** factor is that the bill requires the taxpayer to invest at least $50 M in new product development and manufacturing capacity. The assessed value of this investment (which would not be exempted by this bill) would offset the reduction in inventory value to some extent, unless the local community grants an abatement.

The actual fiscal impact of this proposal will depend on the above factors, taxpayer action, and local action. This analysis did not consider whether or not current taxpayer operations would continue without this measure.

As an illustration only, an analysis was performed to determine the impact to taxpayers and taxing units if the exemption had been granted for the 2000 Pay 2001 tax year. The reduction in the tax base caused by the exemption would have resulted in a $1.4 M tax shift from the high impact business to all taxpayers in all property classes throughout Tippecanoe County. There would also have been a $290,000 levy reduction for rate-controlled funds, most notably school capital projects funds. District tax rates in Tippecanoe County would have increased by a range of 0.2% to 1.4%. Again, the actual fiscal impact may differ from this illustration due to the estimation issues mentioned above.

State Agencies Affected:

Local Agencies Affected: Lafayette Common Council; Tippecanoe County Council; Tippecanoe County Auditor; Civil taxing units and school corporations in Tippecanoe County.

Information Sources: Local Government Database.